

April 18, 2006

TO: All Payroll Clerks

FROM: Central Payroll Division

INCOME REPORTING: EMPLOYEE AWARDS, GIFTS, AND PRIZES

According to the Internal Revenue Code, gross income generally includes amounts received by the employee as awards, gifts, or prizes, including the value of non-cash items received. These taxable items must be included in the income reported by the employer, and this information will be requested from you on a quarterly basis.

This week, you will be e-mailed an "Employees Receiving Taxable Awards, Gifts, and Prizes" form; on this form, please fill in the requested information for any employees in your business unit who have received or will receive a taxable item not paid via PeopleSoft during the period from January 1, 2006 through April 30, 2006. Print the form, have it signed by your Appointing Authority or designee, and return the signed copy to Central Payroll at mail stop A-68, then e-mail the completed softcopy to Mike.Shanks@sdcounty.ca.gov by **Friday, May 5, 2006**. A guide to tax treatment of typical awards, gifts, and prizes is attached to assist you in completing the form.

The value of the taxable items received will be added to the listed employees' other income on the Form W-2 for 2006. OASDI and Medicare taxes will be withheld on the added amounts, but although these added amounts will be subject to Federal and State income taxes, no additional income tax will be withheld. Please notify your listed employees of this adjustment, as they will need the information to correctly estimate their tax liability for the year.

If you have any questions, please contact Mike Shanks at (619) 685-2394.

SHARON L. JASSY, Manager
Central Payroll Division

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Attachment

Tax Status of Various Awards, Gifts, and Prizes

This list covers a number of situations typically encountered by employers, but it is not intended to be all-inclusive. If you have any questions, please contact Central Payroll for more information.

Category	Examples	Tax Status	IRS References
<ul style="list-style-type: none"> ○ Awards for outstanding work ○ General prizes 	Employee recognition awards, including cash, cash equivalents, gift certificates, goods, or services	Taxable	Publication 525
Awards for length of service or safety achievement (tangible personal property, not more than once per 5 years, awarded as part of a meaningful presentation, under conditions and circumstances that do not create a significant likelihood of it being disguised pay)	Awards of plaques, pins, statues, or trophies with low fair market value	Nontaxable	Publications 15-B & 535
Awards for length of service or safety achievement (other)	Awards of other than tangible personal property, such as cash, gift certificates, vacations	Taxable	Publications 15-B & 535
Non-cash holiday gifts with low fair market value	Turkey, ham, or other gift of nominal value at holidays	Nontaxable	Publications 15-A, 15-B, & 525
Holiday gifts: cash or cash equivalents	Gift certificates or other items that can be easily exchanged for cash	Taxable	Publication 525
Occasional parties/picnics for employees and their guests	Staff holiday luncheons, staff/family picnics	Nontaxable	Publication 15-A & 15-B
Occasional tickets for entertainment or sporting events (not including tickets given as awards)	Occasional gifts of baseball/movie tickets	Nontaxable	Publication 15-A & 15-B
Occasional meals, snacks, or meal money of minimal value	Doughnuts, coffee, sodas	Nontaxable	Publication 15-B